Monthly Report – August 2019

We spoiled **August** in our previous commentary with news on the tariff war, well little to say at this point but best to quote this very good resume by Andy Home from Reuters:

"The northern hemisphere summer is ending, and U.S. President Donald Trump kicks off September by jacking up tariffs on $300 billion of Chinese imports to 15% (from 10%). ***A second phase of tariff hikes takes effect mid-December****. Targeting items such as mobile phones, smartwatches and video games consoles, the higher levies will kick in before Christmas shopping gets underway. Consumer demand -- two-thirds of U.S. economic activity -- has been resilient in the face of the escalating trade war with Beijing. But retailers such as Macy's, Abercrombie & Fitch and Best Buy are now warning of profit hits as new tariff rounds bite…* ***The S&P500 index posted losses this month for the first time since May.***

China *has expressed hopes Washington will cancel the additional levies and continue negotiations. But it has also said it might* ***have no choice but to impose retaliatory tariffs****. Next week will show whether it follows through on that threat.*

The question is, can it afford to? Demand from Chinese businesses and consumers is faltering; last month, industrial output growth cooled to a 17-year low. Official surveys this weekend are expected to show factory activity slowed for the fourth straight month in August. Weak numbers and a total breakdown in trade talks may well see the yuan -- down almost 4% in August - extend its slide."

MONTHLY High's And Low's

	HIGH	LOW
COPPER	$5.924 ON 1ST	$5.624,5 ON 9TH
ZINC	$2.439 ON 1ST	$2.205 ON 30TH
NICKEL	$18.135 ON 30TH	$14.175 ON 2ND
TIN	$17.470 ON 2ND	$15.565 ON 27TH

Despite better PMI figures from China most metals fell even more in August confirming a gloomy outlook on the future global economy. Given the differences across raw materials it seems still that it is the macro events that are shuffling the deck and so far not for the good sake of markets.

Same political doubts are behind other important moves on currencies: the British Pound fell to an almost 2 year low against the Euro at the beginning of the month on **Brexit** worries. Also in this case better than expected PMI data were not enough to inject optimism, the **GBP** actually went **below 1.2 against the USD** at the end of the month while the political approach of Boris Johnson on exiting the EU went harder. When the US sneezes, the rest of the world catches cold and so also the **Euro** followed the downward trend against the dollar landing rock bottom to a new multi year low. Economic outlook and the recent Italian political situation fuelled the slip **below 1.1 against the greenback** at the end of August.

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Copper lost about 5% in just 3 days of trading after the tariff increase threat at the beginning of August but had a solid recovery in the following week on trade rumors of delays in such imposition. There has been a resilient move in the following week on (again) rumors of new negotiations in the Sino-Us tariff soap opera but that was not enough and the price fell **below 5.700$** another couple of times towards this **2 year low**. The average **monthly price lost over 3% landing at 5.130€** while LME stocks had another shuttle like launch adding 60.000 tons in a couple of days in what seems to be now a fix pattern with early month increases followed by slow decrease, at the end inventories registered a 16% increase from July at 335.000 tons. There are some optimists in this rather bearish environment, we hope their enthusiasm will help in this complex political and economical situation: *" China's stimulus measures, including infrastructure spending, should help stabilize world economy in 2H and support copper prices, Jiangxi Copper Co., country's top producer, says in earnings statement. * China will continue to open up and expand infrastructure to support employment, finance, foreign trade, foreign capital, investment and expectations, co. says in statement late Thursday * "Under the expectation of a macro turnaround, the copper price is expected to maintain upward fluctuation in the second half" (Bloomberg)*

Zinc was among the worst performers in the August commodity market **hitting a fresh 3 year low**. The metal was actually the center of attention for a newly launched LME initiative to: *"increase trading during closing rings in its three-month trial with zinc and is expected to announce next week that open-outcry trading for all metals will be doubled to 10 minutes each in closing rings, said a source with direct knowledge of the change* (*Reuters*)*."* Despite the interest in early August, the negative conjuncture and CTA selling sent further down the price testing repeatedly the support level at **2.220$** . Just when it seemed to recover from its depths the International Lead and Zinc Study Group revealed a new physical balance that lead to another plunge: *"The **global zinc market swung into a 10,900 tonne surplus in June** from an upwardly revised deficit at 38,200 tonnes May. During the first half of the year, the global deficit rose to 134,000 tonnes from 103,000 tonnes in the same period last year* (*Reuters*)*."* The € price fall was less sharp and the monthly average lost 6% ending below **2.050€** while the stock reduction of over 15% did not jeopardize the cash to 3 month spread.

Nickel took a huge run up and marked an outstanding photo finish on the 30th of August with a **5 year high** above **18.000$.** Fundamentals have backed this rise with an unexpected anticipation of Indonesia's ore export ban first with rumors and later by the official confirmation that it would start in December instead of 2022. The waste spill occurred in neighboring Papua New Guinea gave the price an extra boost so that the over performance was also on the average monthly price touching **14.100€** while LME inventories **surged towards 152.000 tons** along with the price increase and finally rebounded from an almost 7 year low.

Tin puts us back to reality after the nickel euphoria, the metal actually was overtaken by its little brother and ended the month brutally to a **3 years low below 16.000$**. The price graph indicates a slowdown since April but the fall has been almost homogeneous across spring and summer with a final blow in late August when *"**China's tin smelters cut production** due to low processing fees, reduced availability of ore and sluggish sales of the metal, the Beijing branch of the International Tin Association (ITA) said (Reuters)"* As Andy Home commented in another Reuters ' article: "*The slide in the tin price has been accompanied by rising LME warehouse stocks, which have rebuilt from just 740 tonnes at the start of May to a current 6,175 tonnes. The increase in inventory has taken place from an extremely low starting point and was initially spurred by another of the LME tin contract's periodic spread contractions. The cash-to-three-months spread CMSN0-3 flexed out to $340-per tonne backwardation at one stage in May, the high cash premium sucking metal into the LME warehouse system… **What might have been viewed as a one-off stocks reaction to LME tightness is starting to look more problematically structural**. "*